ANNUAL REPORT 1996

Crispin
ENERGY INC.

Corporate Profile

Crispin Energy Inc. is a junior public energy corporation, with its shares listed on the Alberta Stock Exchange ("CEY"). The Corporation maintains a high working interest and operatorship in its three core properties, and is primarily focused on crude oil production. The primary goal of management is to achieve production growth by building upon its existing crude oil production and reserve base through the cost effective development of its core properties using three dimensional seismic and horizontal drilling technologies. A strategic Joint Venture arrangement entered into by the Corporation during 1996, will allow the Company to develop and place on production its large proven non-producing and probable crude oil reserves with only minimal finding, developing and on-stream costs.

Annual Meeting

Shareholders are cordially invited to attend the Corporation's Annual General Meeting, which will be held at the Bow Valley Club, located at 370, 250 - 6th Avenue S.W., Calgary, Alberta, at 10:00 a.m. Thursday, May 22, 1997. Shareholders are encouraged to complete and return the enclosed Proxy form to the Corporation or to Montreal Trust's Calgary office if you are unable to attend to Annual General Meeting.

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Abbreviations

2-D	two dimensional seismic
3-D	three dimensional seismic
bbl	barrel
bopd	barrels of oil per day
mcf	thousands of cubic feet
mcfd	thousands of cubic feet per day
°API	oil gravity in units of the American Petroleum Institute

Symbols

- ● oil well
- ☼ gas well
- ¤ service well
- ⌖ dry and abandoned well
- ●– horizontal well
- ○ location
- ↙ injector

MESSAGE TO THE SHAREHOLDERS

The management of Crispin Energy Inc. spent a considerable amount of its efforts in 1996 laying the foundation for the development of its core properties and undertaking arrangements to ensure the financing of the corporation's development plan. The drilling of prospects scheduled for the fourth quarter were delayed due to weather related access problems and shortages of drilling equipment. As a result, revenues and cash flows are relatively flat when compared to last year.

Gross oil and gas revenues totalled $ 996,753 for the year ended December 31, 1996, virtually unchanged from $ 1,012,327 in 1995. Cash flow from operations of $ 313,018 and net income of $ 76,126 was achieved in 1996 compared with operating cash flow of $ 420,493 and net income of $ 108,177 for 1995. Cash flow and earnings were reduced primarily due to higher fluid trucking costs at Girouxville and a short term reduction in production rates at Sousa.

Oil production in 1996 averaged 99 bopd with an average field price of $ 27.21 per barrel. Overall production rates were lower due to several factors including: shut in time at Girouxville during an unusually wet spring, summer and fall, which prevented trucking of produced fluids; an increased water cut on the Girouxville well; and several months of reduced production rates from one of the Sousa wells, due to a malfunctioning bottom hole pump. The Sousa well was worked over and restored to normal production in December. Gas production for 1996 averaged 37 mcfd at an average selling price of $ 0.98/mcf, marginally up from 34 mcfd and $ 0.89/mcf in 1995.

During the course of 1996, the Canadian oil and gas industry experienced activity levels never before seen in its history. Over 13,000 wells were spudded during the year, surpassing the 1995 tally by some 23%, and surpassing the previous record year of 1994 by over 1,300 wells. This frenzied pace was fuelled by a combination of factors: low interest rates, healthy commodity prices, and renewed investor interest. Interest rates in Canada were reduced in half between April and the end of the year to lows not seen in over 30 years. The shifting of investment funds from bonds and other interest bearing securities into equities provided a very good year for oil and gas industry financings, thus spurring increased drilling levels. Crude oil prices averaged over 20% higher in 1996, with Edmonton par crude ending the year at $ 35.00 Cdn/bbl, a level not seen since the Gulf war. Gas prices in Western Canada also averaged over 20% higher in 1996.

The record level of drilling activity prevailing in the latter half of 1996 has continued on through the first quarter of 1997. This has had an impact on Crispin's activities in that the demand for drilling equipment and services has far exceeded supply. This, combined with some unusual weather, has delayed the commencement of drilling operations by Crispin. We do not see the severe shortage as being a long term condition, as the drilling fleet and service sector is expanding to meet the increased demands of the industry.

In June of 1996, Crispin finalized a joint venture arrangement with a group of investors whereby the joint venture participants would fund the acquisition of seismic data and potentially drill one or more wells on each of the Corporation's three core properties. Crispin would remain as the operator of each of the properties.

At Sousa, the joint venture participants funded the acquisition of 3 square miles of 3-D seismic over Crispin lands. This seismic confirmed the expected potential for drilling horizontal sections in the Keg River formation from three of Crispin's existing wellbores. One well has been licensed for drilling but could not be drilled during the past winter, and is now scheduled for the fourth quarter of 1997.

At Girouxville, a 3 square mile 3-D seismic program was laid out to evaluate the most prospective area of the Crispin acreage for further Gilwood oil potential. This program was originally scheduled for September, but was delayed until late November due to abnormally high amounts of rainfall and late agricultural operations in the area. Interpretation of the 3-D program indicated a Gilwood oil location at Lsd 13-25-76-22W5M, which

should be structurally higher than the one existing well Crispin now has producing from this reservoir. Crispin has proceeded with the licensing of the well, and commenced drilling operations on March 22, 1997. The well is expected to reach total depth of 2,500 metres during the second week of April.

At Medicine Hat, a drilling program was generated for the drilling of a multi-lateral horizontal well in the Glauconite "C" pool, offsetting two of Crispin's existing vertical wells in the pool. This well has been licensed and was to have commenced drilling in late December, but drilling equipment was not available. We now have this well scheduled for drilling in the second quarter of 1997, when several drilling rigs will move into the Medicine Hat area.

At the Annual and Special meeting of the shareholders held on May 3, 1996, the shareholders approved the name change of the Corporation from Camrex Resources Ltd. to Crispin Energy Inc. The change was undertaken to reflect the fundamental changes, which occurred in the previous year, in terms of corporate structure, assets, management and shareholders. The name change became effective July 3, 1996 and the Corporation continues to trade on the Alberta Stock Exchange under the new trading symbol of "CEY". In addition to the usual methods of shareholder communications, Crispin has recently opened an internet web site (www.crispinenergy.com) which will contain financial data, press releases, and other up to date developments in progress. We encourage all shareholders and other interested parties to visit the site regularly. We have also added an e-mail address (crispin@cadvision.com) for anyone wishing to have timely communications with us.

At the last shareholders meeting, two new directors were elected to the Board of Directors of Crispin Energy Inc., Mr. Glen Phillips and Mr. Murray Nunns. Both have a wide range of technical and managerial experience within the oil and gas industry. Mr. Robert Eldridge was appointed Chairman of the Board of Directors, during the year. Their guidance will be valuable in assisting Crispin in accomplishing its objectives and progressing to a more active company.

Looking back on the year, while there were some delays in carrying out the proposed development agenda for the Corporation, we are now well on the way to transforming our asset base into a more tangible cash flow stream. I thank the shareholders for your continuing interest in your company and your confidence in the management and directors of Crispin Energy Inc. In addition, I would also like to extend our thanks to employees, consultants, field operating personnel and contractors for their services rendered under what were often less than ideal conditions. The past year started with some of the coldest weather on record, Northern Alberta experienced some of the highest and most persistent rainfall seen in many years, and oilfield activity levels in the latter stages of the year and into 1997 have stretched people and equipment to their limits. Through it all, we have continued to receive the highest levels of performance that have earned the Canadian petroleum industry workforce its superior reputation.

ON BEHALF OF THE BOARD OF DIRECTORS,

Donald C. Munro, P. Eng.
President and Chief Executive Officer
March 31, 1997

REVIEW OF PRINCIPAL PROPERTIES

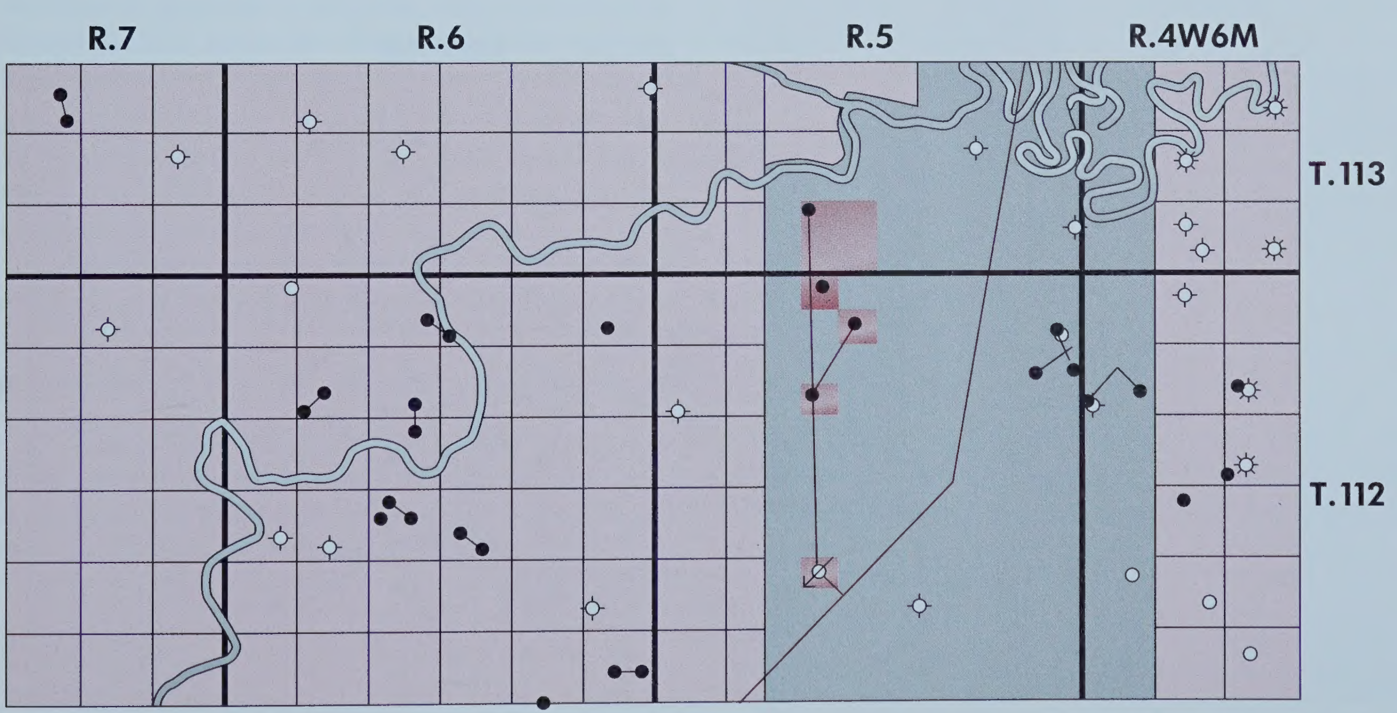
SOUSA AREA, ALBERTA

The Sousa area is located 400 miles northwest of Edmonton, Alberta. Crispin has a 100% working interest in 1,280 acres of Dene Thá First Nations Lands. The lands contain three producing and one shut-in Keg River Devonian reef oil wells. The wells are producing 37° API crude oil at a combined rate of 95 bopd. Crispin owns and operates full gathering, processing and salt water disposal facilities to handle the Corporation's production. These facilities will allow the Corporation to bring new reserves on stream quickly and with relatively minor expenditures. The treating facility is pipeline connected to the Rainbow Pipeline system.

Crispin's joint venture arrangement funded the acquisition and interpretation of a 3 square mile 3-D seismic program over the Corporation's lands. This program confirmed that the Sousa property has considerable development potential which could be realized by drilling of short radius horizontal sections from three of the existing wellbores. Management believes that through the use of this technology recoverable crude oil reserves from the existing reservoirs can be significantly increased. A number of other operators have been successfully drilling horizontal wells in the Keg River formation on lands to the east and to the west of our holdings. Over ten horizontal wells have been drilled to date, with the initial production rates and apparent recoverable reserves surpassing expectations. We are very encouraged by these findings and will be closely monitoring the production results of these operations.

The proposed development drilling plan would initially be comprised of one short radius horizontal section from each of the three existing vertical wells. It is management's objective to drill at least two of these locations in the upcoming winter drilling season. Two of the Corporation's existing vertical wells are good candidates for multi-lateral development, and in the event that the initial horizontal laterals are successful, secondary development plans would include the drilling of an additional lateral leg from each of these wells. Initial crude oil rates per horizontal section are conservatively estimated to be on the order of 150 to 300 bopd.

In addition to the proven producing and probable additional Keg River oil reserves, proven Sulphur Point natural gas reserves and natural gas liquids reserves have been assigned to the property.



SOUSA AREA
Crispin Land

MEDICINE HAT, ALBERTA

The Medicine Hat prospect is located within the northeast sector of the City of Medicine Hat, Alberta. The Corporation has a 42% to 100% (average 90.3%) working interest in 320 acres of freehold lands. Crispin owns a 100% working interest in two producing and one suspended Glauconite oil wells. The property presently produces 15 bopd of 16° API crude oil from the two producing wells. The third well has been temporarily suspended to prepare the lease for the first horizontal well planned for the property.

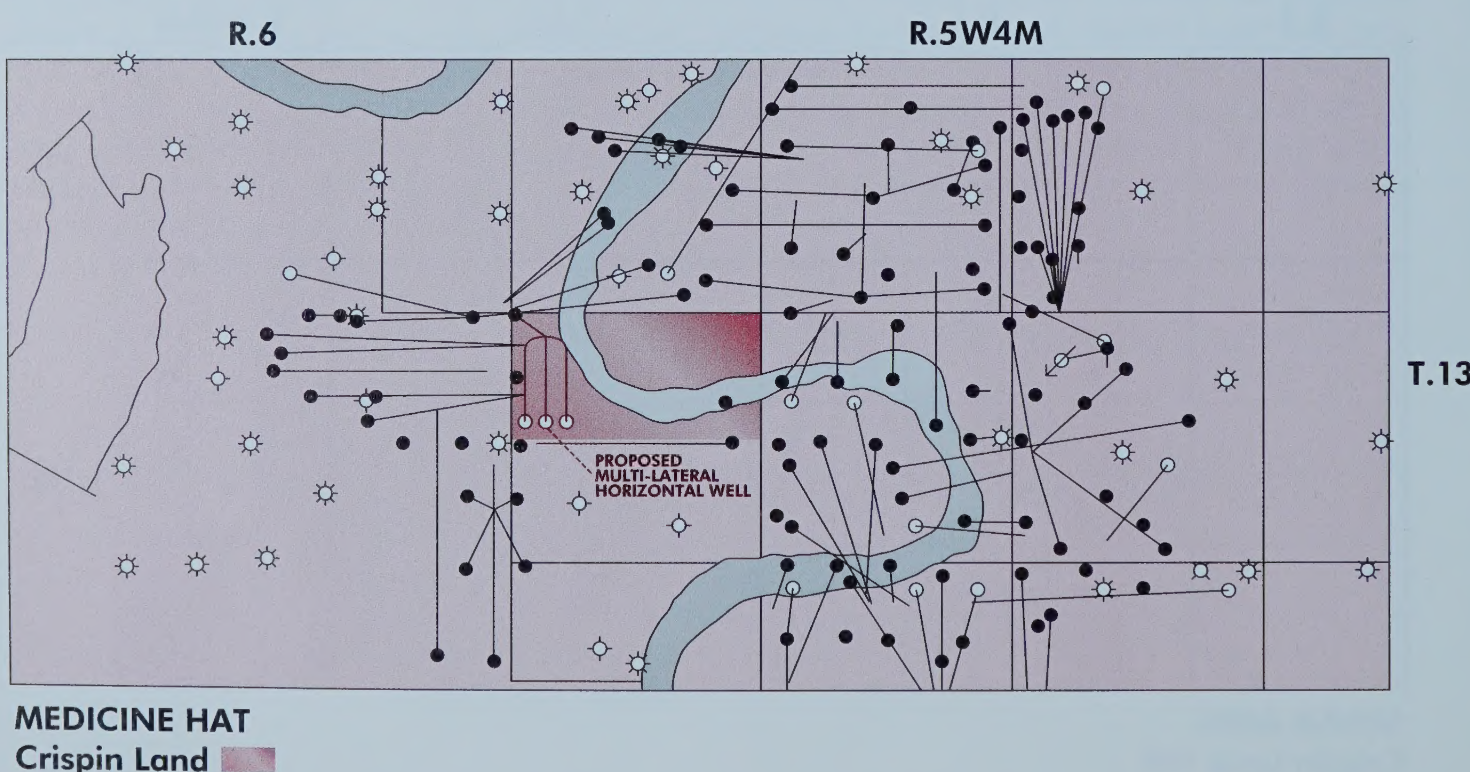
The productive reservoir is a Glauconite sandstone with an average pay thickness of 10 metres over the Corporation's acreage. Crispin's existing wells are located within the boundaries of the Medicine Hat Glauconite "C" pool which encompasses some 11 square miles. The pool had originally been developed with vertical wells on 40 acre spacing, and had in excess of 120 producing wells. The first horizontal well drilled in the Medicine Hat Glauconite "C" pool was drilled in November 1994, with a total of 60 horizontal wells being drilled by the end of 1996. Approximately 40 additional horizontals are planned for 1997. The horizontal drilling by other operators has proven the procedure to be very successful, with initial production rates in the 150-350 bopd range.

To date, production from the Glauconite "C" Pool has been by primary depletion. A pilot water injection scheme has been in operation for several years, and discussions have recently taken place regarding a more extensive water flood. If successful, water flooding will substantially improve the ultimate recovery of reserves from the pool. There is also additional potential for tertiary recovery.

Crispin proposes to develop the property, in conjunction with a joint venture partner, by drilling multi-lateral horizontal wells into this well defined reservoir, with expected initial production rates in the 100-300 bopd range.

The Corporation's first multi-lateral horizontal well was to have been drilled during December 1996, however, due to a lack of drilling equipment in Southern Alberta we were unable to commence operations at that time. The drilling of this well has been re-scheduled for the second quarter of 1997.

An Independent Reserve evaluation of the property has assigned proved producing and probable additional crude oil reserves to the existing vertical wells and proved undeveloped crude oil reserves to the proposed horizontal wells.



REVIEW OF PRINCIPAL PROPERTIES, CONT'D

GIROUXVILLE EAST, ALBERTA

The Girouxville East area is located 70 miles northeast of Grande Prairie, Alberta. Crispin has working interests ranging from 10% to 100% (average 45.2%) in 2,560 gross acres (1,157 net acres). The property is situated on the southeast flank of the geological feature known as the Peace River Arch and offsets existing Gilwood producing oil wells. The surrounding lands also contain proven and producing natural gas reserves in several formations.

The Corporation has a 100% working interest in one oil well that produces 12 bopd of 42° API crude oil from the Gilwood interval. The Gilwood in this well produces with a high water cut. It is probable that the present wellbore is not located on the highest point of the structure of this reservoir.

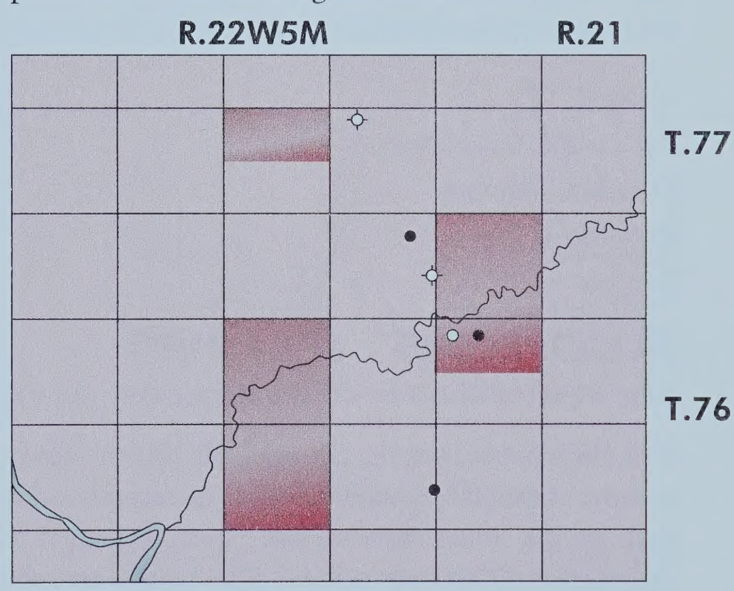
Crispin's joint venture partner funded the acquisition of 3 square miles of 3-D seismic covering the most prospective portion of the Corporation's lands. The program was completed in late November 1996 and interpretation of the seismic indicates that there is a structurally higher location to the west of the existing wellbore. Drilling operations commenced on the Girouxville 13-25-76-22W5M well on March 22, 1997 and it is anticipated that the results of this well will known during the second week of April.

Re-interpretation of the existing 2-D seismic and further geological mapping suggested that the Corporation's lands to the east of the existing production were unprospective for oil and natural gas. As a result of this interpretation, the lands were allowed to expire during 1996. Crispin acquired an interest in 1,280 acres of new land in the area at the October 16, 1996 land sale.

Depending on the results of the 13-25 well, the existing 14-25 well may be either a candidate to be directionally drilled to a higher interval on the Gilwood structure, or to be re-completed as a Beaverhill Lake oil well. Both options would allow the company to increase crude oil production and to reduce the water handling costs.

The 14-25-76-22W5M well has had crude oil production from the Beaverhill Lake zone, which was previously suspended in favour of a completion in the lower Gilwood interval. Pressure data for the Beaverhill Lake interval was obtained at the time of the re-completion, and this data suggests that there are significant oil reserves remaining in this formation. Previously experienced production problems were likely related to poor inflow caused by formation scaling.

The Corporation has had an Independent Reserve report prepared for the property which assigns proven oil reserves to the Beaverhill Lake interval and probable oil reserves assigned to the Gilwood interval.



GIROUXVILLE
Crispin Land

RESERVES OF CRUDE OIL AND NATURAL GAS

The Company's crude oil and natural gas reserves were evaluated by the independent petroleum engineering firm of Outtrim Szabo Associates Ltd. In the reserve report dated April 2, 1997, Outtrim Szabo Associates Ltd. evaluated the Company's reserves and the net present value of the estimated future net revenues effective December 31, 1996 as follows:

	Oil	Gas	Discounted NPV ($,000's)		
	mbbl's	mmcf	0 %	10%	15%
Proved Producing	104.9	—	$ 951	$ 784	$ 722
Proved Non-Producing	214.0	2,417	6,645	3,399	2,577
Total Proved Reserves	318.9	2,417	7,596	4,183	3,299
Probable Additional	398.0	1,419	7,250	3,690	2,761
Total Reserves	716.9	3,836	$ 14,846	$ 7,873	$ 6,060

Management's Report

TO THE SHAREHOLDERS OF CRISPIN ENERGY INC.

Management is responsible for the preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for ensuring that all other financial and operating information presented in this annual report are consistent with such consolidated financial statements. The Corporation has established and maintains a system of internal controls which are designed to provide reasonable assurance that all transactions are properly recorded in the Corporation's records to facilitate the preparation of reliable and timely financial information, and that assets are managed efficiently and protected from unauthorized use.

The consolidated financial statements have been audited by the independent accounting firm of Bleackley, Hanson, McCowan and Howden, Chartered Accountants, whose appointment is ratified annually by the shareholders at the annual shareholder meeting. The independent accountants conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements.

The Audit Committee of the Board of Directors, is composed of directors from both inside and outside of the Corporation. The Audit Committee meets with the independent accountants and management to satisfy itself that it is properly discharging its responsibilities. The independent accountants have unrestricted access to the Audit Committee, without the prior consent of management, to discuss the results of their examination and the quality of the financial reporting and internal accounting controls.

D.C. Munro

Donald C. Munro
President & CEO

M Graham

Murray D. Graham
Vice President & CFO

Auditors' Report

TO THE SHAREHOLDERS OF CRISPIN ENERGY INC.

We have audited the consolidated balance sheet of Crispin Energy Inc. as at December 31, 1996 and 1995 and the consolidated statements of operations and retained earnings and changes in the financial position for each of the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in financial position for each of the years then ended in accordance with generally accepted accounting principles.

Bleackley Hanson McCowan & Howden

April 4, 1997
Calgary, Alberta

Chartered Accountants

CRISPIN ENERGY INC.

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31

	1996	1995
ASSETS		
CURRENT ASSETS:		
Cash	$ 273,159	$ 53,685
Accounts receivable	140,406	151,354
Note receivable (Note 5)	114,986	125,722
Prepaid expenses	17,482	5,810
Inventory	6,702	6,107
	552,735	342,678
OTHER ASSETS:		
Property, and equipment (Note 4)	1,102,053	948,203
Goodwill (net)(Note 2)	68,188	76,293
	$ 1,722,976	$ 1,367,174

	1996	1995
LIABILITIES AND SHAREHOLDER EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 656,898	$ 285,389
Note payable (Note 6)	0	92,333
	656,898	377,722
ACCUMULATED FUTURE SITE RESTORATION (Note 3(e))	2,462	1,962
DEFERRED INCOME TAXES	11,972	11,972
SHAREHOLDER EQUITY:		
Share capital (Note 7)	1,621,290	1,621,290
Deficit	(569,646)	(645,772)
	1,051,644	975,518
	$ 1,722,976	$ 1,367,174

See accompanying notes to financial statements.

ON BEHALF OF THE BOARD OF DIRECTORS,

D C Munro

Donald C. Munro
President & CEO

R.H. Eldridge

R. H. Eldridge
Director

CRISPIN ENERGY INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

	1996	1995
REVENUE:		
Oil & Gas sales (net of royalties of $ 205,919; 1995 — $ 245,694)	$ 790,835	$ 766,633
Interest and other	60,649	48,851
	851,484	815,484
EXPENSES:		
Depletion, depreciation and site restoration	71,073	167,787
Amortization of goodwill	8,105	5,816
Operating	538,466	394,991
General & administrative	152,245	136,067
Interest expense	5,469	2,646
	775,358	707,307
NET INCOME BEFORE INCOME TAXES	76,126	108,177
INCOME TAXES — CURRENT (Note 8)	33,880	48,000
REDUCTION DUE TO APPLICATION OF NON-CAPITAL LOSSES	(33,880)	(48,000)
NET INCOME FOR THE YEAR	76,126	108,177
DEFICIT, BEGINNING OF YEAR	645,772	753,949
DEFICIT, END OF YEAR	$ 569,646	$ 645,772
EARNINGS PER SHARE	$ 0.004	$ 0.006

CRISPIN ENERGY INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED, DECEMBER 31

	1996	1995
CASH PROVIDED BY (USED FOR):		
Operations —		
Income for the year	$ 76,126	$ 108,177
Add(deduct) items not involving cash		
Amortization of goodwill	8,105	5,816
Depletion, depreciation, site restoration	71,073	167,787
	155,304	281,780
CHANGE IN NON-CASH WORKING CAPITAL	288,593	147,979
	443,897	429,759
FINANCING ACTIVITIES:		
Shares issued on acquisition of subsidiaries	—	299,538
Share issue costs	—	(99,038)
Shares issued for cash	—	34,500
Partner capital contribution	—	75,859
	—	310,859
FUNDS AVAILABLE FOR INVESTING	443,897	740,618
INVESTING ACTIVITIES:		
Acquisition of P & NG properties net	(224,423)	(281,677)
Acquisition of subsidiaries assets	—	(405,256)
	(224,423)	(686,933)
INCREASE IN CASH FOR THE YEAR	219,474	53,685
CASH, BEGINNING OF YEAR	53,685	—
CASH, END OF YEAR	$ 273,159	$ 53,685

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. CORPORATE NAME CHANGE

The Corporation changed its name from Camrex Resources Ltd. to Crispin Energy Inc. effective July 3, 1996.

2. BUSINESS COMBINATION

(a) Reverse Takeover — Effective April 17, 1995, Camrex Resources Ltd. issued 13,706,927 common shares to acquire all the issued and outstanding shares of 585688 Alberta Ltd., 495756 Alberta Ltd., Crispin Resources Limited, Tidoc Resources Ltd., and Pallas Resources Ltd. In accordance with Canadian Institute of Chartered Accountants pronouncements, the business combination has been accounted for as a reverse take-over by the purchase method. These financial statements reflect the acquisition by 585688 Alberta Ltd. of Camrex Resources Ltd., Crispin Resources Limited, Tidoc Resources Ltd., Pallas Resources Ltd., and 495756 Alberta Ltd. since April 18, 1995 (see Note 10(b)). The net assets of Camrex Resources Ltd. acquired by 585688 Alberta Ltd. were as follows:

Current Assets	**$**	**158,422**
Note Receivable		**110,400**
P & NG Properties		**194,541**
Goodwill		**82,109**
Current Liabilities		**(245,934)**
	$	**299,538**

The goodwill arises from the excess of purchase price over the fair market value of the net assets of Camrex Resources Ltd. Goodwill is to be amortized on a straight line basis over a ten year period.

(b) Comparative figures — Due to the reverse takeover, these financial statements reflect the continued operations of 585688 Alberta Ltd. 585688 Alberta Ltd. acquired the assets of Crispin Limited Partnership, from a major shareholder, effective January 1, 1995 (Note 10(a)). The amount recorded as share capital reflects net partners contributions to December 31, 1994 (Note 7), and the amount recorded as deficit reflects accumulated losses of the partnership to December 31, 1994.

3. ACCOUNTING POLICIES

(a) Consolidation — The financial statements include the accounts of Crispin Energy Inc. ("the Corporation") and its wholly owned subsidiaries:

495756 Alberta Ltd.	Crispin Resources Limited	North River Resources Ltd.

During 1996 the Corporation wound up the following wholly owned subsidiaries:

284087 Alberta Ltd.	292772 Alberta Ltd.	546145 Alberta Ltd.
585688 Alberta Ltd.	Pallas Resources Ltd.	Tidoc Resources Ltd.

(b) Petroleum and natural gas operations — The Corporation follows the full costs method of accounting for petroleum and natural gas operations whereby all costs of exploration for and the development of petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, carrying charges on unproved properties, geological and geophysical costs, costs of drilling both productive and nonproductive wells, production equipment and related facilities. Such costs are accumulated, depleted and amortized on a unit of production method based on estimated proven recoverable reserves with net production and reserves volumes of natural gas converted to equivalent energy units of oil. At December 31, 1996, $ 66,817 of costs related to unproven reserves have been excluded from costs subject to depletion and amortization.

(c) Ceiling test — Costs accumulated in each cost centre are limited to the future net revenue from estimated production of proved reserves, based on year end prices, plus the value of unproved properties and major development projects. Costs accumulated in all cost centres are limited to the aggregate future net revenues from estimated production of proved reserves, based on year end prices, plus the aggregate value of unproved properties and major development projects, less the aggregate estimated future production related general and administrative, financing costs, future site restoration costs and income taxes for all costs centres. In calculating this ceiling test the Corporation used year end prices of $ 2.39 per mcf of natural gas and $ 29.48 per barrel of oil and NGL's.

(d) Use of estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Future site restoration costs — Estimated future costs of restoring the Corporation's oil and gas properties, net of the estimated salvage value of the tangible equipment, are being provided for on the unit of production basis. Such costs are expensed annually and accumulated in the provision account based on proven reserve estimates and current production levels. When expenditures are made to restore a property, the accrued provision is charged with these expenditures.

(f) Joint ventures — The Corporation's petroleum and natural gas exploration activities are conducted jointly with other parties. These financial statements reflect only the Corporation's proportionate interest in such activities.

(g) Flow through shares — The Corporation has financed a portion of its capital expenditures with flow through shares. Under this type of financing, shares are issued at a fixed price and the resultant proceeds are used to fund qualifying exploration and development expenditures within a defined time period. The expenditures funded by flow through arrangements are renounced to investors in accordance with tax legislation. Share capital has been reduced by the estimated cost of the renounced tax deductions when expenditures are incurred.

4. PROPERTY AND EQUIPMENT

	December 31, 1996			December 31, 1995
	Cost	Accumulated depletion, amortization and write-down	Net book value	Net book value
Property and Equipment	$ 1,929,391	$ 827,338	$ 1,102,053	$ 948,203

5. NOTES RECEIVABLE

The notes receivable represent principal amounts loaned and accrued interest, to two former officers of the Corporation. The loans were originally made September 14, 1993 for the purpose of exercising stock options of the Corporation. These loans are due December 31, 1996 and are secured by promissory notes that bear interest at 6% per annum. The principal sum of $ 14,000 and accrued interest of $ 2,384 was collected on June 21, 1996. The principal sum of $ 96,000 and accrued interest of $ 18,984 was collected January 13, 1997.

6. NOTE PAYABLE

The note payable represents amounts advanced to the Corporation by a Corporation controlled by the major shareholder of the Corporation, for the purpose of funding a property acquisition. The note was retired August 23, 1996. (Note 10(c)).

7. SHARE CAPITAL

(a) Authorized Unlimited number of common shares
150,000 preferred shares

(b) Issued — Common Shares

	Number of shares	Carrying value
December 31, 1994 — Partners net contributions		$ 1,322,403
January 1, 1995 — Partner contributions		75,859
January 1, 1995 — Issued in exchange for assets of Crispin Limited Partnership	13,706,927	1,398,262
April 17, 1995 — Issued to effect reverse takeover	6,456,031	299,538
December 29, 1995 — Issued for cash, private placement	30,000	7,500
December 29, 1995 — Issued for cash pursuant to flow-through share agreements, net of deferred taxes of $ 11,972	90,000	15,028
	20,282,958	$ 1,720,328
Less: Share issuance costs		99,038
December 31, 1995 and December 31, 1996	20,282,958	$ 1,621,290

(c) Stock Options — Common Shares

	Number of shares	Option price per share	Expiry Date
Balance outstanding December 31, 1994	nil	n/a	n/a
Reconfirmation of options outstanding at the time of the business combination	300,000	$ 0.20	December 31, 1998
Granted to directors, officers, and employees April 17, 1995	1,275,000	$ 0.20	April 18, 2000
Options cancelled during 1996	(150,000)	$ 0.30	n/a
Granted to directors, officers, and employees May 3, 1996	200,000	$ 0.20	May 3, 2001
Granted to directors, officers, and employees May 31, 1996	250,000	$ 0.20	May 31, 2001
Balance outstanding at December 31, 1996	1,875,000		

Note: At a meeting held on May 30, 1996, the Board of Directors of the Corporation approved an amendment to the exercise price of the non-expiring common share purchase options. The exercise price of these options was amended to $ 0.20 per common share from $ 0.30 per common share. This amendment was approved by the Alberta Stock Exchange, and reflected the current market value of the common shares as at that date.

(d) Share Purchase Warrants

At December 31, 1996 there were 15,000 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share of the Corporation at $ 0.35 per share until September 30, 1997.

(e) Flow-through Share Agreements

During 1995 the Corporation entered into flow-through share agreements, whereby the Corporation agreed to issue 90,000 common shares, in consideration for the Corporation incurring $ 27,000 in qualifying expenditures prior to February 29, 1996, and to flow the income tax benefits to the investor.

8. INCOME TAXES

The Corporation's effective income tax rate differs from the combined federal and provincial tax rate of 44.34% as follows:

	Year ended December 31, 1996	Year ended December 31, 1995
Income tax expense based upon the statutory rates	$ 33,880	$ 48,000
Decrease from the application of prior years losses	(33,880)	(48,000)
Tax expense	$ Nil	$ Nil

The Corporation has the following amounts available to reduce future year's income for tax purposes, the tax effect of which has not been recorded in the financial statements, as virtual certainty of realization does not exist:

	December 31, 1996
Canadian Oil & Gas Property Expense	$ 775,876
Canadian Development Expense	460,331
Canadian Exploration Expense	9,560
Earned depletion	219,690
Undepreciated Capital Costs (various)	762,192
Losses carried forward for income tax purposes	1,903,081
	$ 4,130,730

These losses expire as follows if not utilized to reduce future taxable income:

1999	$ 223
2000	$ 82,535
2001	$ 1,796,777
2002	$ 13,601
2003	$ 9,945

9. COMMITMENTS AND CONTINGENCIES

(a) Annual payments for office premises expiring in 1997 are as follows:	$ 17,138
(b) Annual payments for computer software expiring in 1997 are as follows:	$ 3,496

10. RELATED PARTY TRANSACTIONS

(a) Effective January 1, 1995, 585688 Alberta Ltd. issued shares to acquire certain oil and gas properties and accounts receivable from Crispin Limited Partnership (a partnership owned by a shareholder of the Corporation).

(b) Effective April 17, 1995, in conjunction with the reverse takeover the Corporation acquired all of the assets of Tidoc Resources Ltd., Pallas Resources Ltd., 495756 Alberta Ltd., and Crispin Resources Limited for 4,535,398 common shares. These companies were acquired as they held participation agreements in certain oil and gas properties owned by 585688 Alberta Ltd. 495756 Alberta Ltd. was owned by a director and officer of 585688 Alberta Ltd.

(c) During fiscal 1995 the Corporation was advanced $ 120,000 from a Corporation controlled by the major shareholder. This advance was used to purchase a producing oil property. The advance was paid off, in full, on August 23, 1996. Interest paid during the year on this loan was $ 4,969.

(d) Two officers of the Corporation were remunerated $ 144,000 during the year ended December 31, 1996 (year ended December 31, 1995 — $ 144,840). Of the $ 144,000, $ 70,350 (year ended December 31, 1995 — $ 57,550) was capitalized since the costs were associated with evaluating potential petroleum and natural gas properties and exploration and development activities.

(e) Effective March 1, 1995, the Corporation acquired an oil and gas property from a director of the Corporation in exchange for 871,156 common shares of the Corporation. This property was reflected at a nominal cost in the financial statements. As at the date of the reverse takeover it was believed that the proven reserves of the Camrex properties had only a nominal value.

BOARD OF DIRECTORS

J. S. Burns, Q.C. — Calgary, Alberta
Partner, Bennett Jones Verchere
Director of Crispin Energy Inc. since 1995
Audit Committee member

R. H. Eldridge — Toronto, Ontario
CFO Northumbria Industries Ltd.
Chairman, Crispin Energy Inc.
Director of Crispin Energy Inc. since 1995
Audit Committee member

J. E. K. Floyd — United Kingdom
Businessman
Director of Crispin Energy Inc. since 1992

D. C. Munro, P. Eng. — Calgary, Alberta
President and CEO, Crispin Energy Inc.
Director of Crispin Energy Inc. since 1995
Audit Committee member

M. R. Nunns — Calgary, Alberta
Vice President, Rio Alto Exploration Ltd.
Director of Crispin Energy Inc. since 1996

G. A. Phillips — Calgary, Alberta
President & CEO, Cirque Energy Ltd.
Director of Crispin Energy Inc. since 1996

OFFICERS

D. C. Munro, P. Eng., President and CEO

M. D. Graham, CGA, Vice President,
CFO and Corporate Secretary

STOCK EXCHANGE

The Alberta Stock Exchange — Symbol "CEY"

TRANSFER AGENT

Montreal Trust Company of Canada
600, 530 - 8th Ave. S.W.
Calgary, Alberta
T2P 3S8

AUDITORS

Bleackley, Hanson, McCowan and Howden
462, 301 - 14th St. N.W.
Calgary, Alberta
T2N 2A1

SOLICITORS

Bennett Jones Verchere
4500, 855 - 2nd St. S.W.
Calgary, Alberta
T2P 4K7

BANKERS

Canadian Imperial Bank of Commerce
1000, 855 - 2nd St. S.W.
Calgary, Alberta
T2P 2P2

EVALUATION ENGINEERS

Outtrim, Szabo Associates Ltd.
440, 333 - 5th Ave. S.W.
Calgary, Alberta
T2P 3B6

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